



Economic Governance II :

Supporting the Modernization of the Central Bank of Iraq

USAID-Funded Economic Governance II Project

Presented To: His Excellency, Dr. Sinan Al Shabibi, CBI Governor

Date: <2006.07.25>

- **Economic Governance II (EGII): Program Background**
- **EGII Program Objectives**
- **EG II Program Organization**
- **Monetary Policy and Central Bank (MPCB) Program Organization**
- **MPCB Program Objectives**
- **Sector Summaries:**
 - **Monetary Policy**
 - **Banking Supervision**
 - **Central Bank Operations**

In September 2004, USAID put into place a 3-5 year program providing technical assistance to all Iraqi line ministries and government spending agencies (32 government bodies), including:

- Office of the Deputy Prime Minister
- Ministry of Telecommunications
- Ministry of Finance
- Central Bank of Iraq
- Ministry of Planning and Development Cooperation
- Ministry of Justice
- COSIT (Central Organization for Statistics and Information Technology)
- Ministry of Labor and Social Affairs
- Ministry of Electricity

The main objectives of the Economic II Governance Program are:

- ✓ Rebuilding a governmental system, which is efficient, transparent, and corruption free;
- ✓ Introducing fiscal balance and monetary stability, discipline, and sustainability;
- ✓ Putting into place a viable, well regulated banking system that will facilitate investment, monetary stability, and the development of the economy;
- ✓ Implementing a sound and transparent and predictable commercial legal framework that fosters the rule of law and promotes confidence in the system;
- ✓ Introducing viable, functioning electrical, telecommunications, and government-wide IT management systems;
- ✓ Introducing new sustainable pension and social safety net systems that will protect the most vulnerable individuals of the society and will allow the Government to gradually eliminate the current state-controlled subsidy system for food, energy and electricity;
- ✓ Putting into place clearer and more structured procedures that will facilitate regulation of business and individuals dealing with the government.

Program Objectives

Overall, USAID’s objective in Iraq is:

“To assist the Government in structuring and quickly implementing an operational legal, fiscal, regulatory & institutional framework within which policy can be formulated to foster an investment-friendly, market-based economy.”

Fiscal, Tax, and Customs Reform

Enhanced non-oil revenues & improved budgetary discipline. Develop the fiscal infrastructure necessary for a market economy.

Monetary Policy and the Central Bank

Sound monetary policy & effective financial regulation.

Comm. Law and Institutional Reform

Establish a fair, speedy and reliable commercial legal framework that promotes investor and consumer confidence, trade, and the protection of property rights.

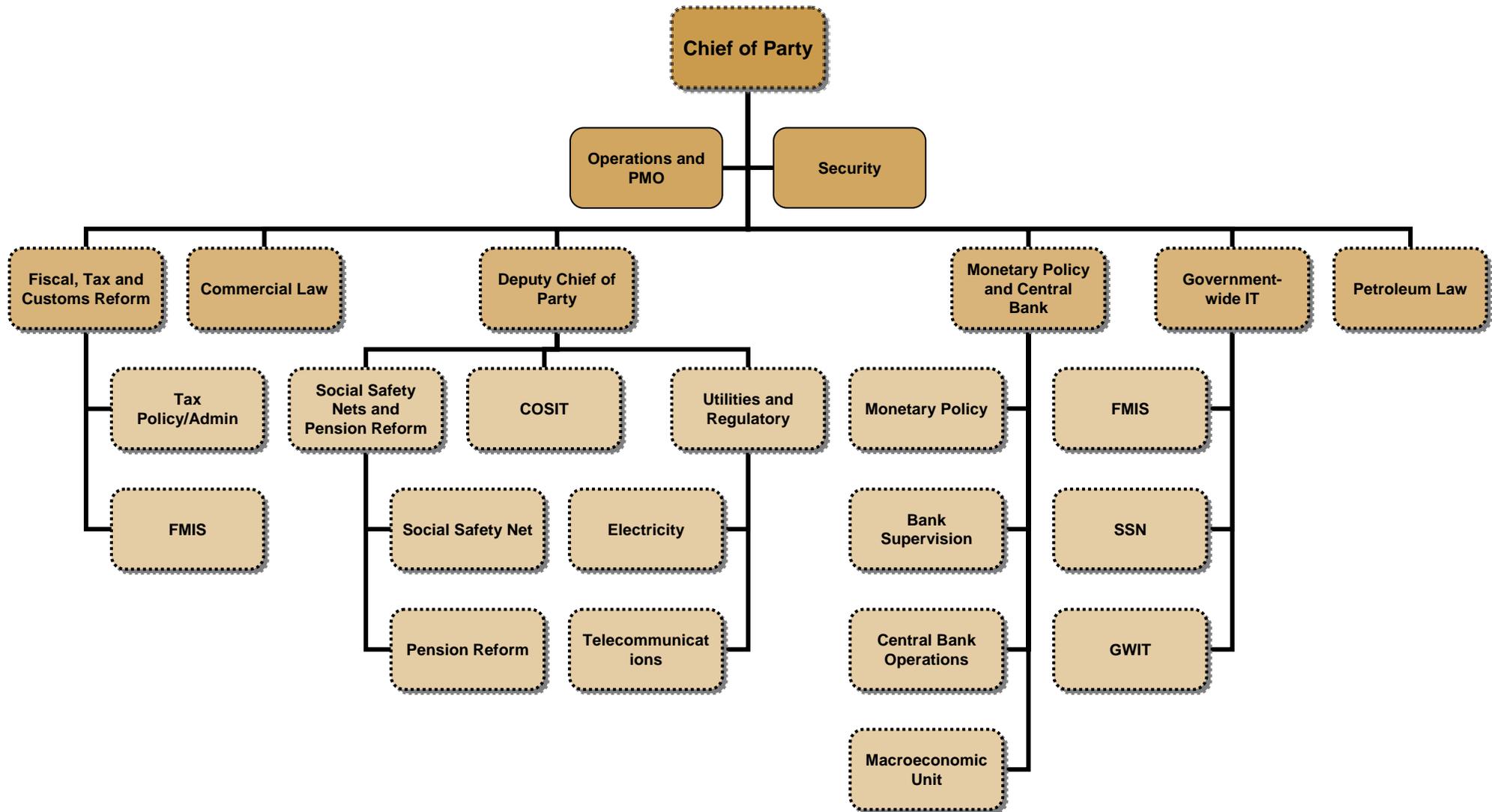
Utilities/Reg. Reform and Gov.-wide IT

Commercially viable electricity & telecoms sectors with improved regulation and modern e-gov framework.

Social Safety Net and Pension Reform

A reliable social safety net that provides immediate assistance to displaced workers and ensures sustainable pension benefits in the long-term.

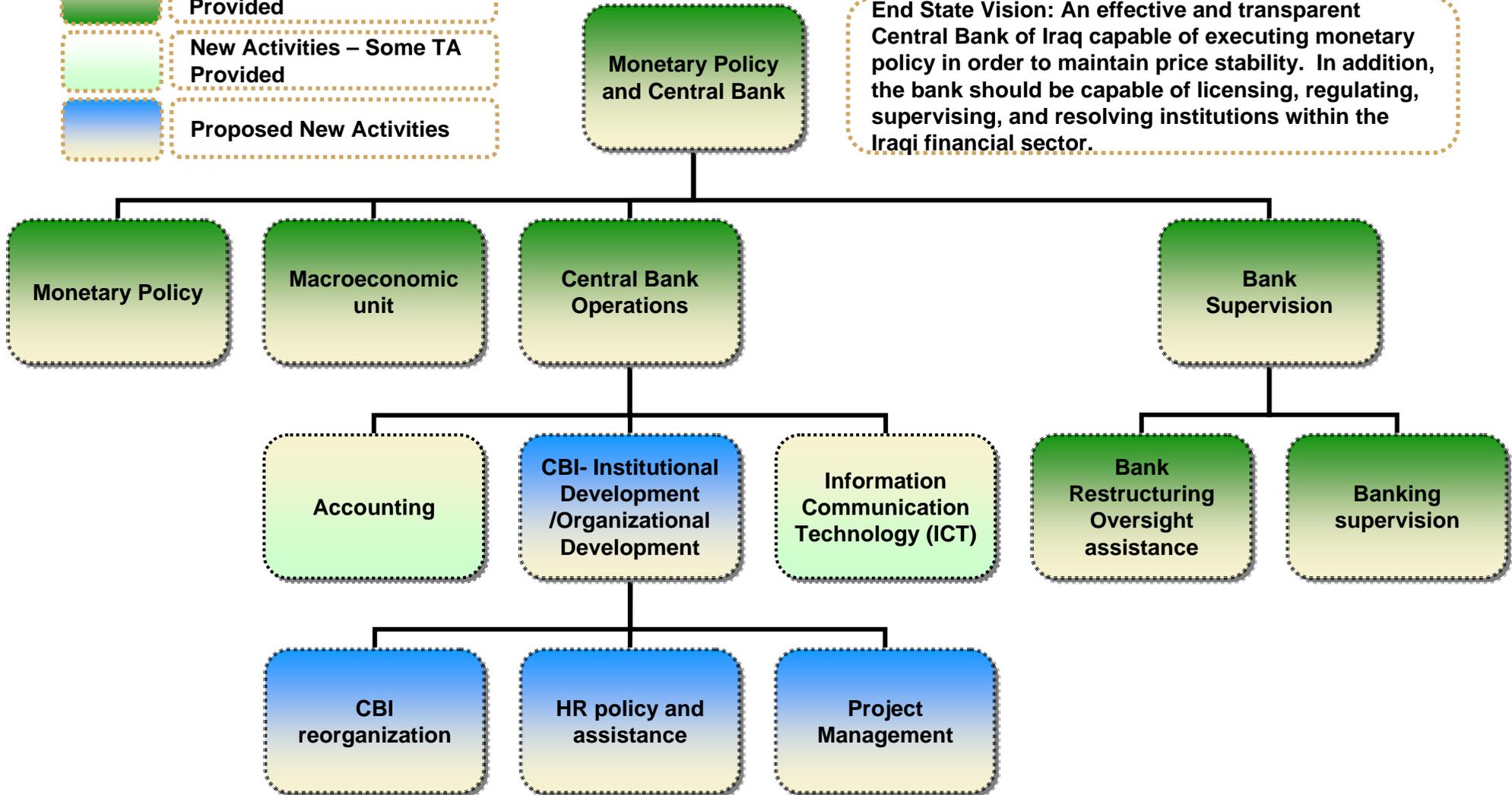
BearingPoint Program Organization



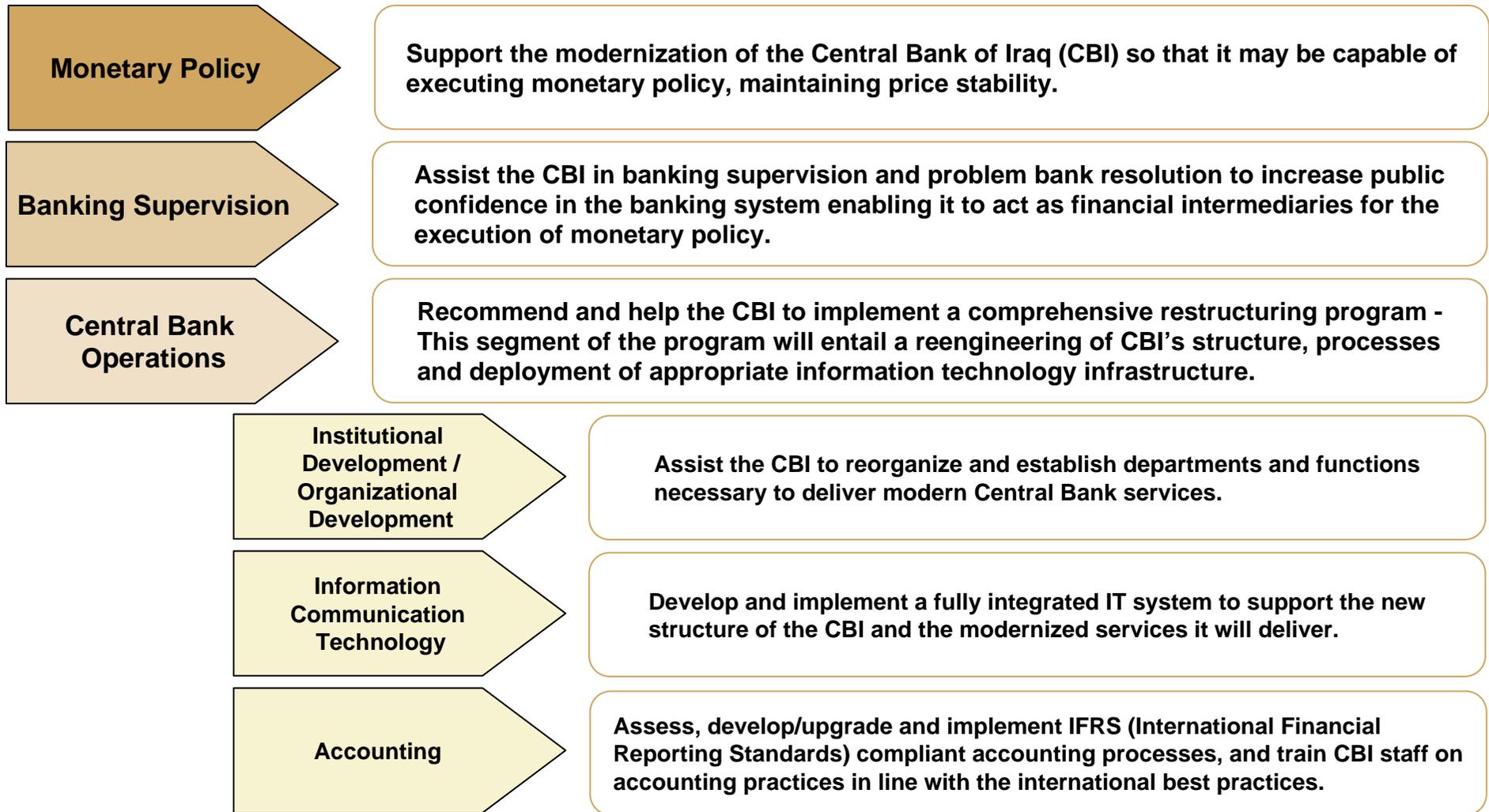
Monetary Policy and Central Bank (MPCB) Organization

- Work In Progress – TA Provided
- New Activities – Some TA Provided
- Proposed New Activities

End State Vision: An effective and transparent Central Bank of Iraq capable of executing monetary policy in order to maintain price stability. In addition, the bank should be capable of licensing, regulating, supervising, and resolving institutions within the Iraqi financial sector.



MPCB Program Objectives



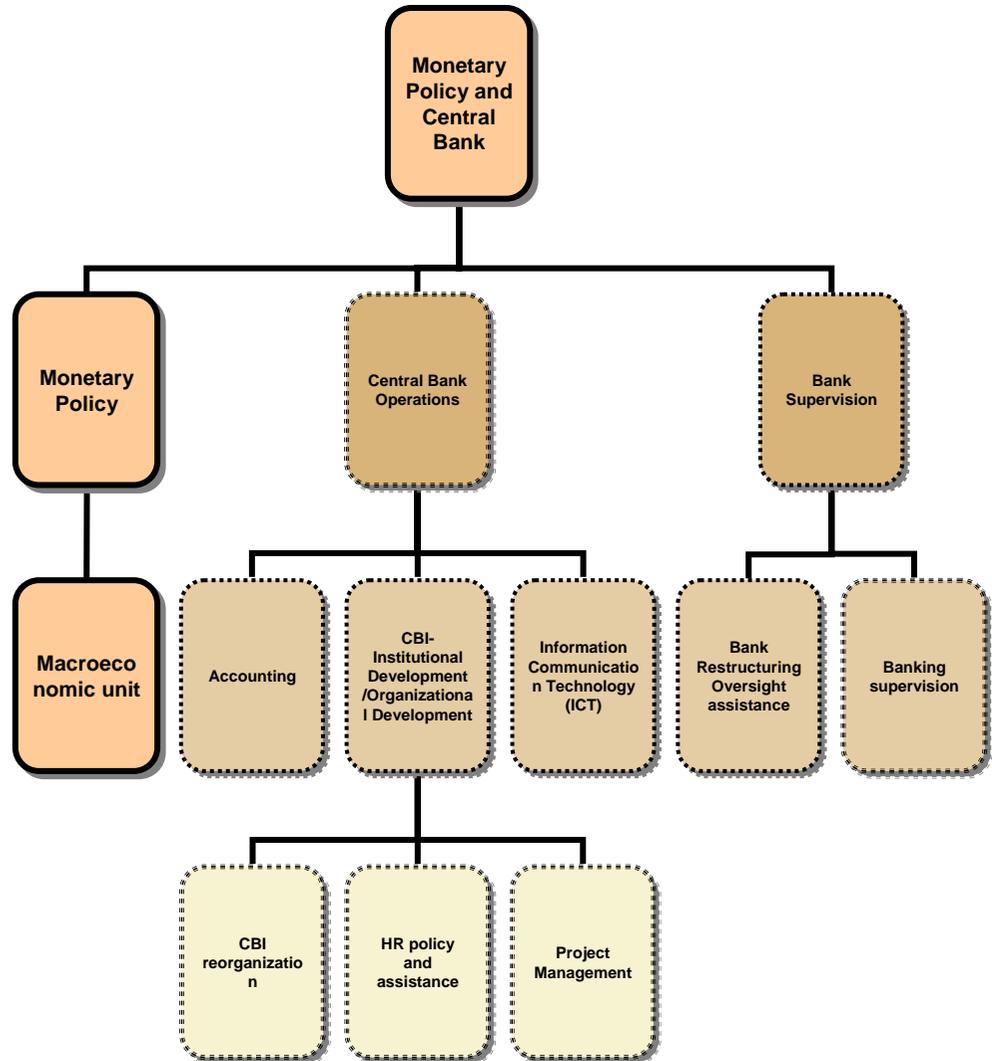
Monetary Policy

Assist the CBI in the development and execution of monetary policy.

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Elements of focus:

- Meeting goals of the Stand By Arrangement.
- Developing liquidity forecasting model.
- Supporting the ongoing publication of the Key Financial Indicators,
- Continued support of reserve requirement data collection, reporting, compliance, and enforcement.
- Any other assistance as required in the development of the monetary policy briefs.
- Support in the development of the data base needs of monetary policy.

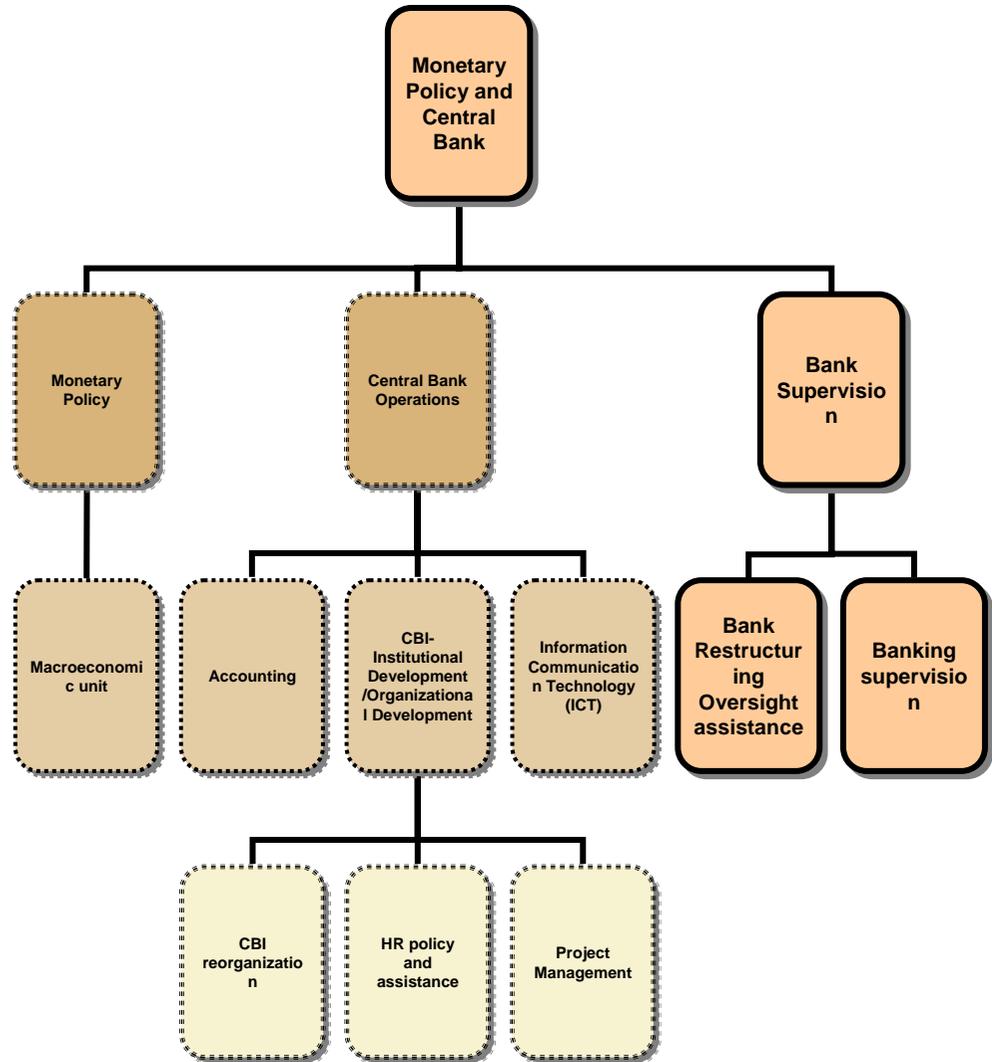


Banking Supervision

Assist the CBI in banking supervision and problem bank resolution to increase public confidence in the banking system enabling it to act as financial intermediaries for the execution of monetary policy.

Bank Supervision has already gone through several important steps

- BSD has established bank guidelines and instructions:
 - Enforcement manual creation
 - Credit policies for commercial banks
 - Capital guidelines
 - Licensing requirements
 - Investment requirements
 - Bank management and directorate qualifications requirements
- Conducted training programs for Banking Supervision and Private Banks
 - Credit analysis, corporate governance, risk-based supervision
- Significantly improved analytical skills and banking knowledge



Off-site supervision

- Develop Off-site supervision data base
- Strengthen analytical capacity of Off-Site Supervision.

On-site supervision

- Build on training courses, and field test practices detailed in bank examination manual.
- Develop portfolio management approach within banking supervision department.

System Research and Analysis

- Recommend and assist in implementation of bank briefs for senior management.
- Expand on bank rating program for internal use.
- Implement enforcement manual

Banking System Restructuring

Assist the CBI in problem bank resolution to increase public confidence in the banking system enabling it to act as financial intermediaries for the execution of monetary policy.

A working group comprised of five members from various areas of the Central Bank of Iraq has been formed to work with the BearingPoint Advisor in developing an approach to bank rehabilitation and restructure.

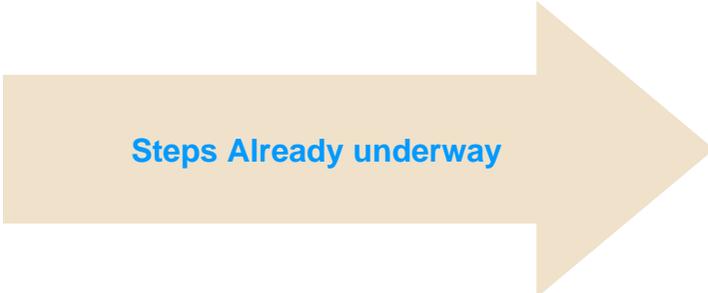
Areas of concern

Recognized weaknesses within the system are as follows:

- Overstaffing in state owned financial institutions.
- Overall lack of adequate written policies and procedures.
- Poor Bank structure (table of org.)
- Lack of training programs.
- Failure to implement IFRS at commercial banking level.
- Inadequate IT implementation at state owned financial institutions.

Central Bank of Iraq must take a broad approach to improve system in general

- Branch Survey
- Fit and Proper Test for directors
- Credit guidelines established by banking supervision department.
- Development of system strategy
- Development of strategy specific to each state owned financial institution.
- Development of guidance note on asset valuation.
- Draft Memorandum of Understanding between CBI and MOF



Steps Already underway

Improving Knowledge and Lending Standards

Providing the resources and tools necessary to consistently improve lending policies and knowledge

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A working group comprised of five members of the Bank Supervision department has been formed to work with the BearingPoint Advisor in suggesting improvements in the various areas and functions dealing with lending and credit.

Examiners working tools

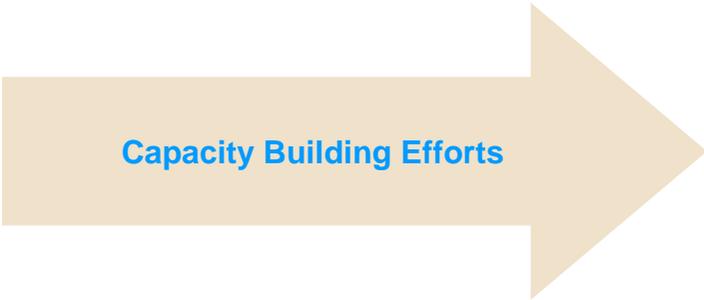
Review and create documents and working tools pertaining to the credit function:

- Review and update Examiners' Manual
- Review CBI internal instructions/guidelines to Examiners
- Develop/create working tools for examiners
 - CAMEL rating matrix
 - Bank strengthening manual
 - Credit assessment guidelines

Instructions to Financial Institution

Instructions to commercial banks have to be reviewed and permanently adapted to international standards

- Review all guidelines or instructions
 - Lending policies and procedures
 - Credits classification
 - Minimum requirements for loans assessment
 - Code of ethics



Capacity Building Efforts

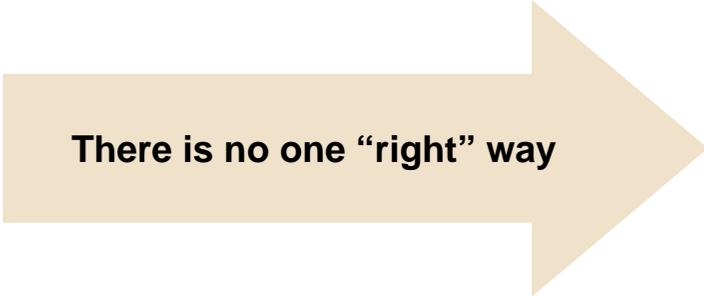
Capacity Building

Capacity building is a daily process which can be implicit or requires specific means:

- Provide advice and assistance to Bank Supervision and off-site/on-site Examiners
- Organize and conduct credit risk seminars for Examiners
- Help Bank Supervision organizing credit seminars for commercial banks

Assistance to CBI Management

- Collaborate with other Advisors in re-engineering CBI
- Advise Bank Supervision Management



There is no one “right” way



Central Bank Operations

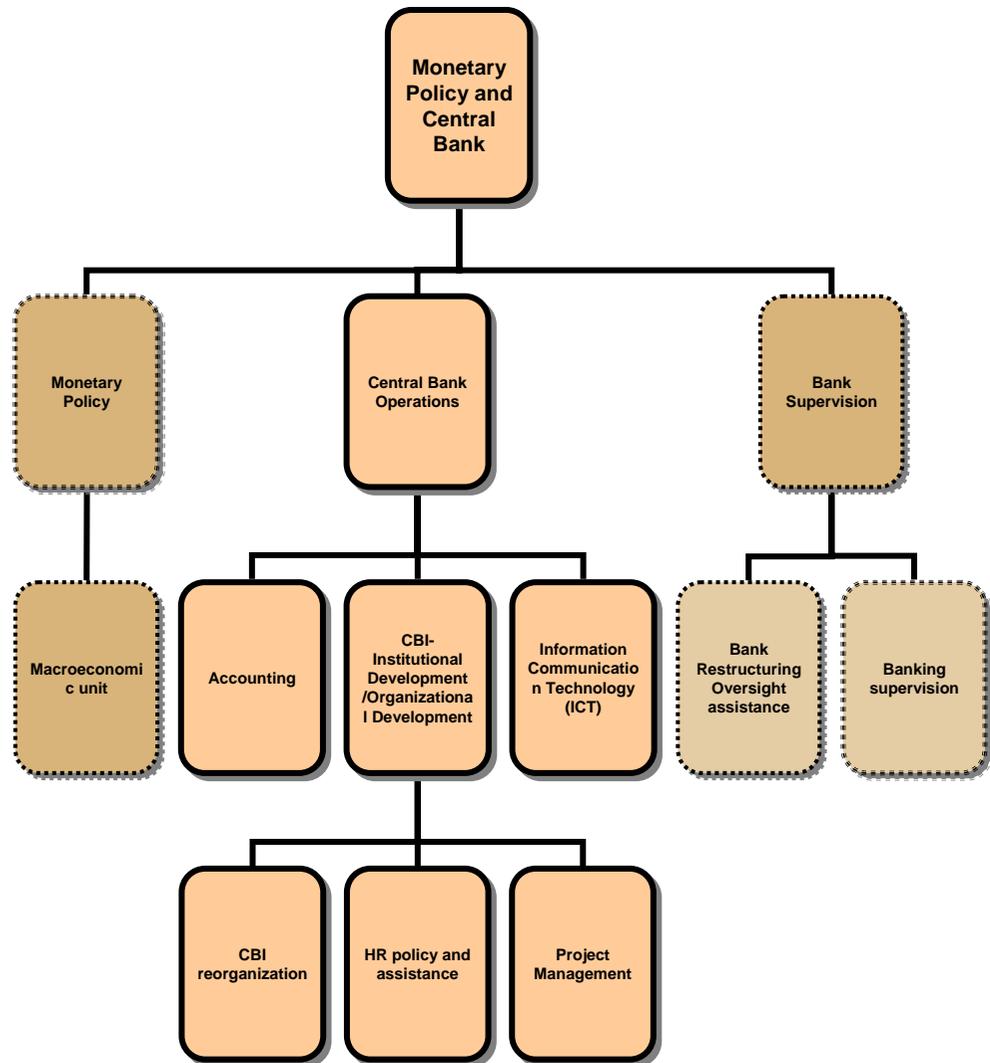
Recommend and help the CBI to implement a comprehensive reengineering program

Central Bank Operations: Project Overview

Project Overview

Under the U.S. Agency for International Development-funded (“USAID”) Economic Governance II project, BearingPoint is working with to the Central Bank of Iraq (CBI) to recommend and help the CBI to implement a comprehensive restructuring program.

This segment of the program will entail a reengineering of CBI’s structure, processes and deployment of appropriate information technology infrastructure (“Central Bank Operations”).



Human Resources in CBI Re-engineering

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Human Resources (HR) Management Methodology: High Performance Work



**Global,
Client-Oriented,
Responsive,
Mission-Critical Operation**

**Mission
Focused**

Agency Designed for Mission, Responsiveness, People Effectiveness

Human Capital Research Says the Methodology Must Be Tailored for Each Organization

**Best
Practice**

Best-Practice Successor to Previous HR Methods

Personnel Responsible for Outcomes of Functional Area

Personnel and Management Responsible for Outcomes of Organization Across Functions

**Human
Resource**

Effective Human Resources Valued as Key Investment

Management and Staff Trained for Current Work,

Developed for Current and Future Opportunity, and

Given Appropriate Processes and Tools Which Help Them Work

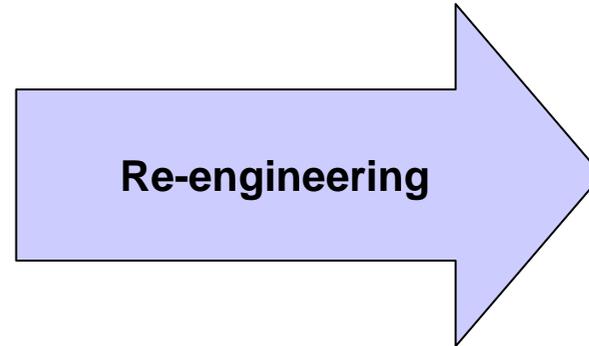
Central Bank of Iraq Critical to Iraq Economic Reconstruction

CBI's Performance Level Is Very Important

➤ The Higher CBI's Performance, ➤



Human Resources in CBI Re-engineering

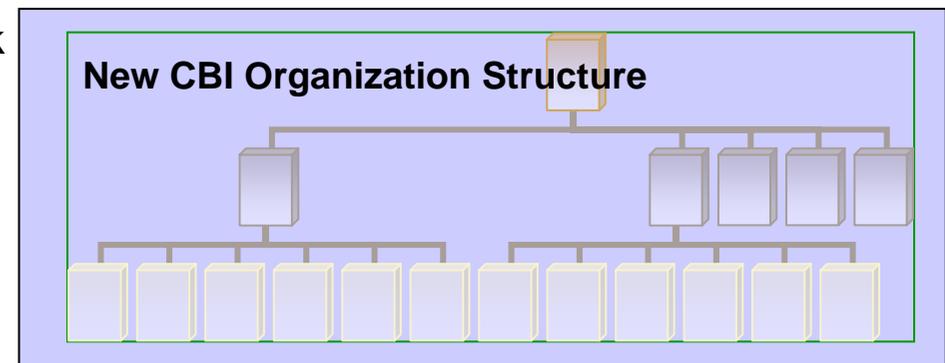
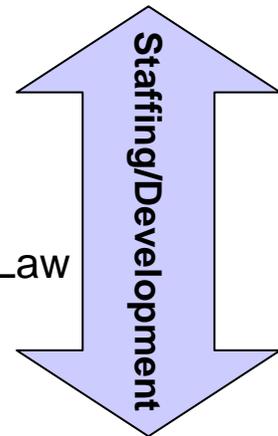


- **CBI Restructuring Existing Initiative**

- Leadership of Governor and Board of Directors
- Organization Structure Approved by Board of Directors
- Personnel Movement Facilitation: CBI Separation Offering; Proposed Pension Law

- **Additional Recommendations**

- From Human Resources Staffing/Development Plans
- Project Management Office Process Work
- From Automation



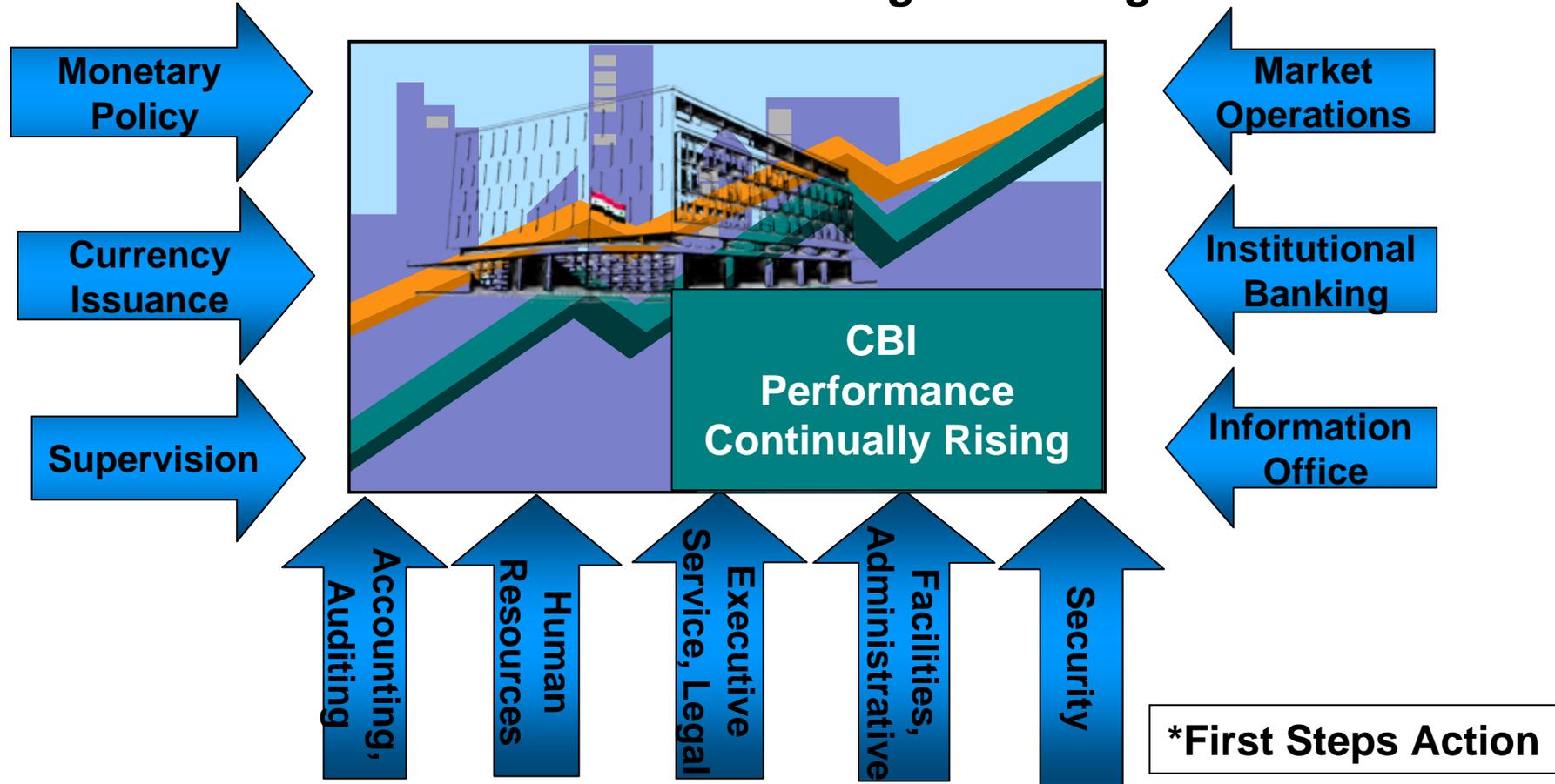
High Performance Work Methodology Basics



Studies Show That An Organization's Performance Is Driven by:

- Collaborative Management Working Together to Ensure Personnel Works Well
- Staff with Very Good Skills, All Contributing to Performance
- Workflow (Processes) Defined to Use Staff Well and Promote Teamwork
- Adequate Support for the Work of the Staff: Tools, Development, Accountability
- Effective Internal and External Communications

Accomplished Staff in All Functions Contributing to CBI High Performance



***Human Resources Executive Committee: Functional Executives and HR Executive**

***Training/Development Plan From Previously Identified Needs, New Assessment**

Human Resources Executive Committee (HREC) Goals and Membership

Goals

- Ensure Organization Can Staff and Train to CBI Objectives
- Provide Governor and Board with Effective HR Recommendations
- Be Responsive to CBI Staffing and Development Needs to Improve Operations

Membership

- Board Representative to Ensure HREC in Concert with Board Objectives
- Functional Executives to Prioritize Human Resource Moves by Needs of Work
- HR Executive to Help Implement Committee Work and Board Decisions

Training/Development Plan Update

Needs Assessment Revised

- Previously Identified Needs
- New Assessment by Human Resources Working with Functional Executives

Expanded Training/Development Options Identified

- e-Learning: Individual Development in Room with Two or Three Computers, Internet Access
- Potential Regional Offerings
- Local Training, On-the-Job Training (OJT)

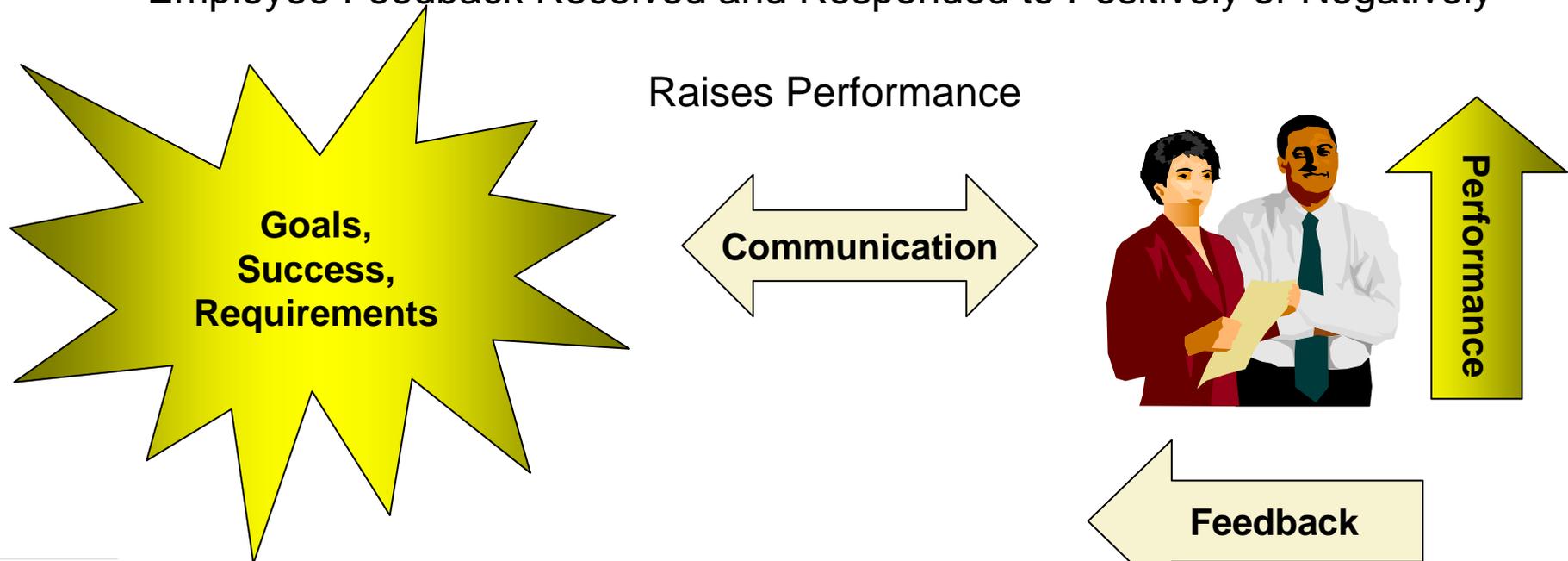
Robust Internal Communications

CBI and Individual Goals Clearly Transmitted to Everyone

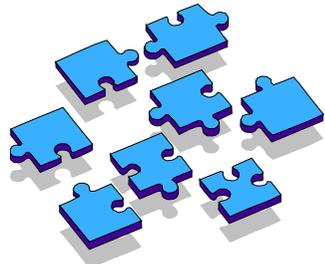
Success Recognized and Used as Good Example

Requirements for Improvement or New Action Quickly Explained

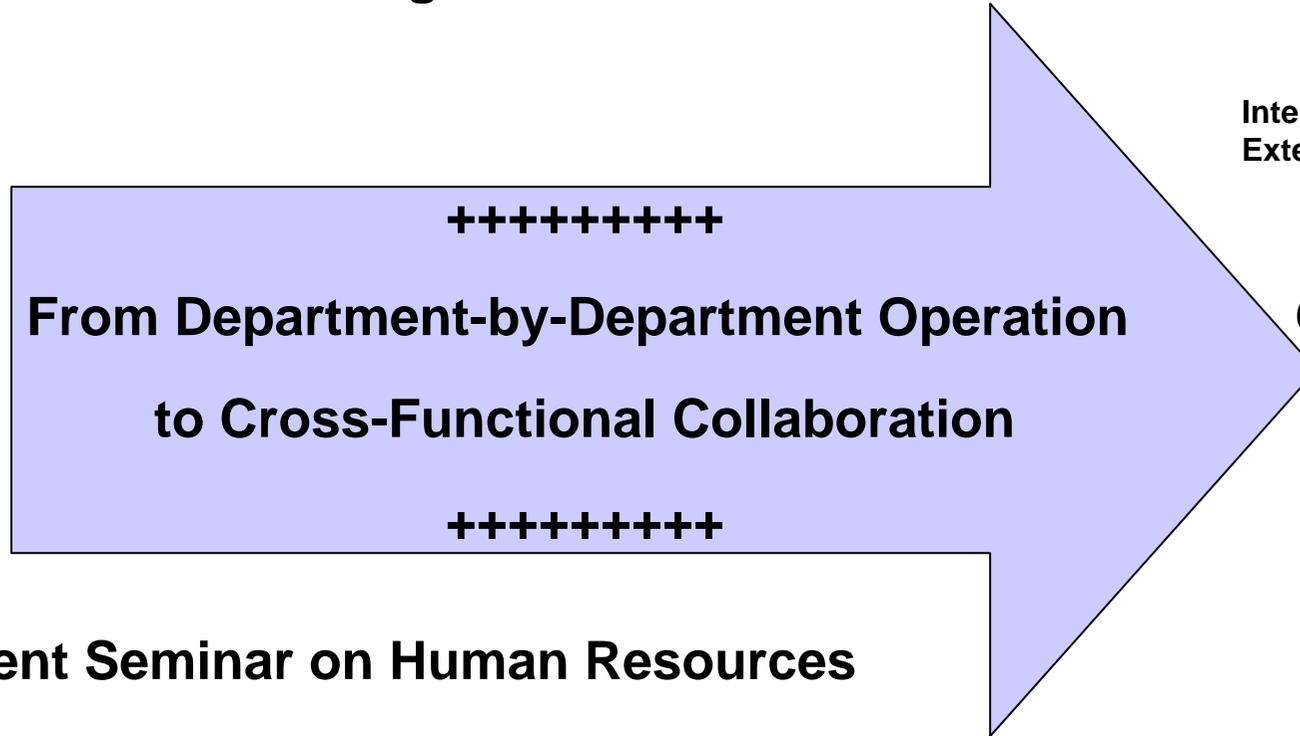
Employee Feedback Received and Responded to Positively or Negatively



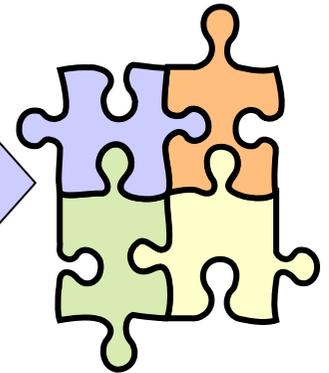
High Performance Work Organization Goals at CBI



*Job-focused,
Function-focused*



Internal collaboration,
External Outreach



*Management Seminar on Human Resources

Discussions of HPW Application at CBI

Recommendations from Attendees

***First Steps Action**

Management Seminar on Human Resources

Update on Human Resources Management

- Presentation of Methods Used Elsewhere and Rationale
- Examples of Performance Improvements in Other Central Banks
- Discussion of Relevance to CBI

Results

- Transfer of Knowledge of Best Practice HR Functions
- Feedback to Governor on Application Ideas

Summary and Next Steps



Human Resources Performance and Development Input to

- Organization Structure Tuning
- Personnel Policy, Administration
- ICT Deployment
- Communication Plans

Establishing a Project Management Office:

Providing the resources and tools necessary to consistently improve the success of CBI-wide projects

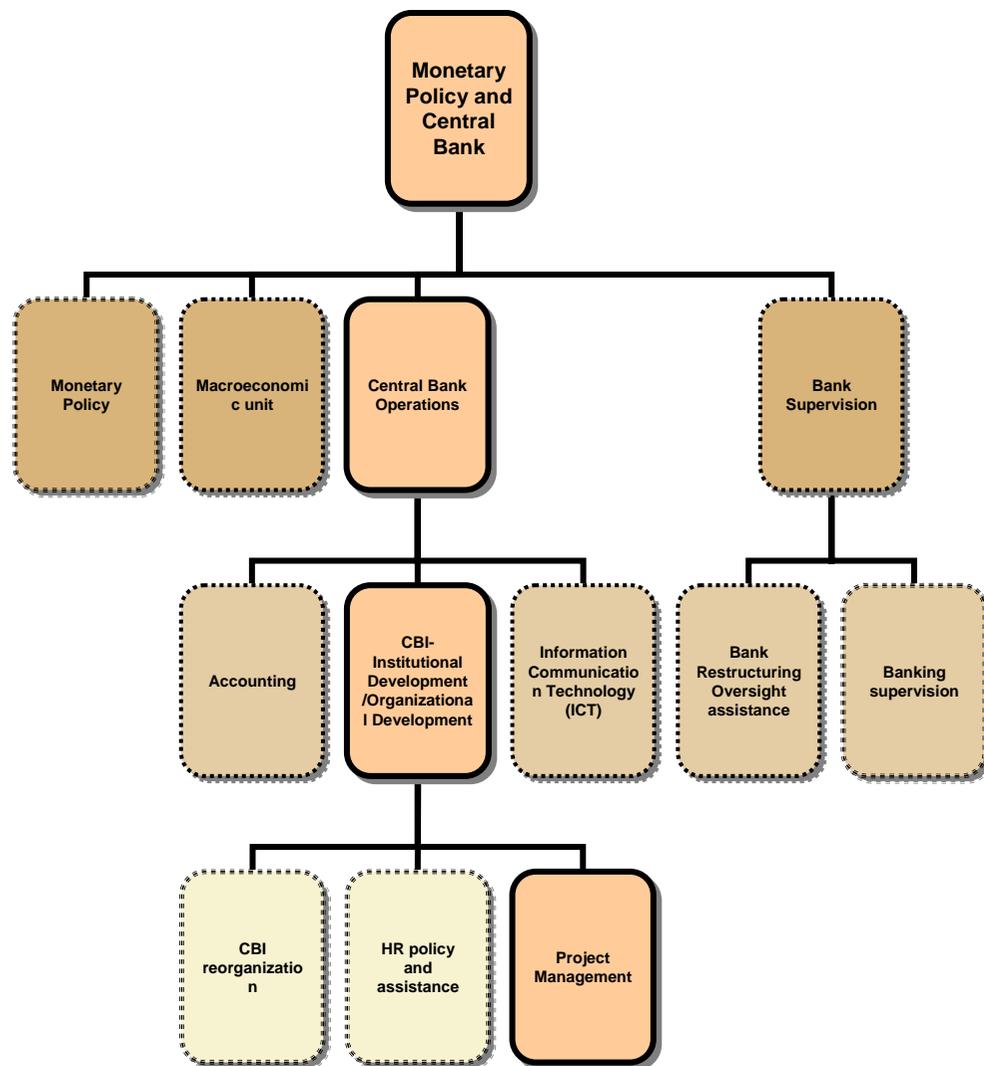
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Central Bank Operations: establishing a fully functioning Project Management Office

Under this Project component (“Central Bank Operations”) USAID has approved funding for the hiring of a Project advisor (Project Management Consultant) and the establishment of a Project Management Office (PMO):

- A Project Management Consultant joined the Project team as a Project Management specialist. In this role, USAID Project Advisor will be tasked with providing technical assistance to the Central Bank of Iraq in order to help CBI staff implement recommendations for organizational improvement, basic program management methodologies, and process improvement.
- PMO: A Project Management Office is an organizational unit designed to integrate project management practices within an organization, i.e. to centralize and coordinate the management of projects under its domain.

The establishment of a PMO will provide the resources and tools necessary to consistently improve the success of CBI-wide projects.



Project Management is:

“... the application of knowledge, skills and techniques to project activities in order to meet or exceed stakeholder needs and expectations from a project.”

Project Management Institute, PMBOK Guide

“The act of leading a team of individuals in planning, organizing, executing, controlling and directing resources of an organization in pursuit of a specific goal.”

American Management Association

It is also an Art...

“The Art of leading a team of individuals in planning, organizing, executing, controlling and directing resources of an organization in pursuit of a specific goal.”

A Project Management Office is:

A Project Management Office is a shared organizational unit designed to integrate project management practices within an organization, i.e. to centralize and coordinate the management of projects under its domain.

Project Management Institute, PMBOK Guide

Benefits of Establishing a PMO

Top 10 Reasons Why Projects Fail

- Inadequately trained and/or inexperienced project managers;
- Failure to set and manage expectations;
- Poor leadership at any and all levels;
- Failure to adequately identify, document and track requirements;
- Poor plans and planning processes;
- Poor effort estimation;
- Cultural and ethical misalignment;
- Misalignment between the project team and the business or other organization it serves;
- Inadequate or misused methods;
- Inadequate communication, including progress tracking and reporting.

Central Bank's operations must be conducted in an effective manner since its costs are ultimately borne by the public. In order to re-position itself to efficiently deliver on its core mandate, It is important for the Bank to make efforts to promote the efficiency of its business operations and organization.

USAID - BearingPoint's Project Management Office solution avoids those Challenges and Risks while attaining the Critical Success Factors inherent to successful projects

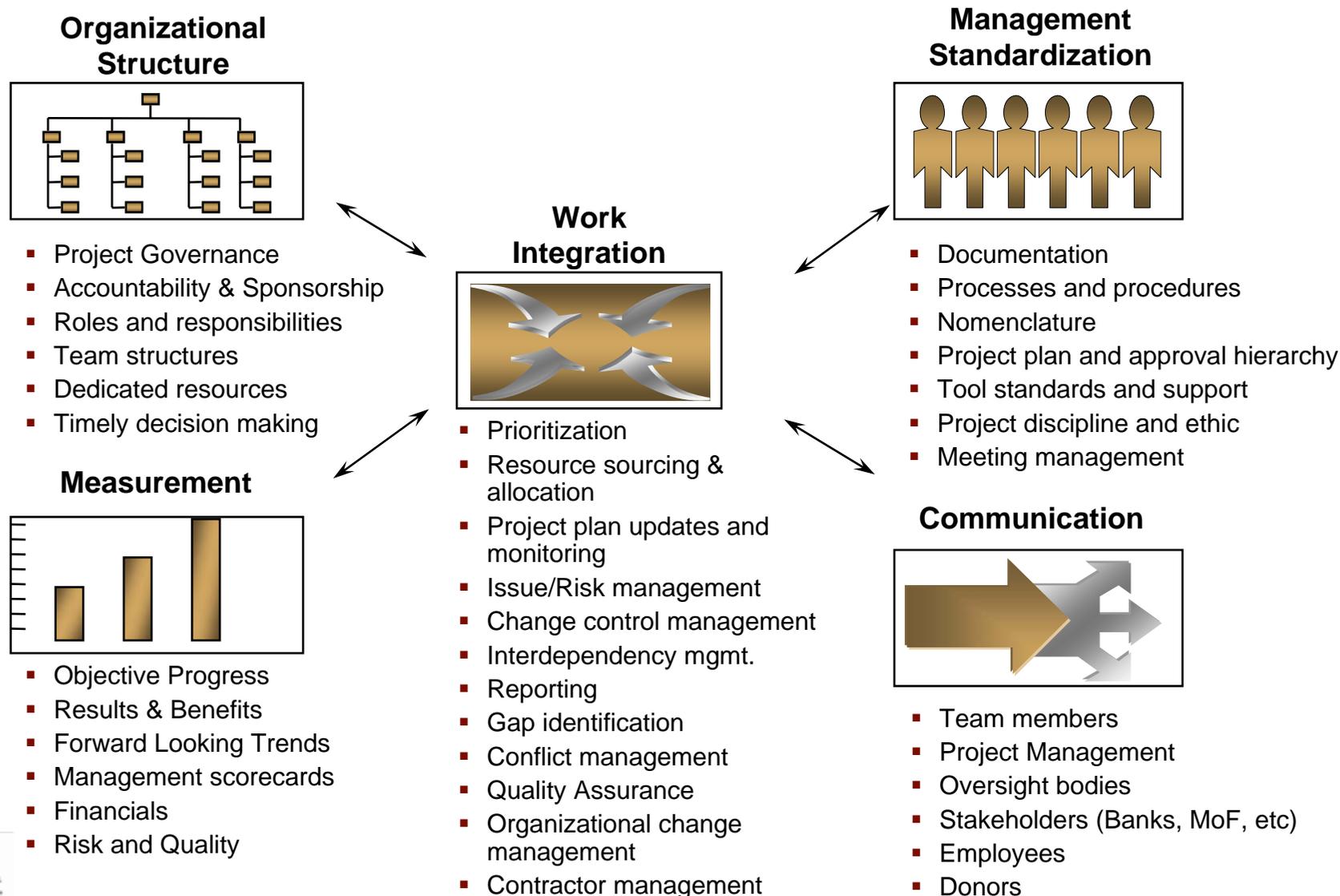
PMOs have the knowledge and tools to consistently manage the complex coordination activities needed to implement organization-wide project.

Benefits of Establishing a PMO

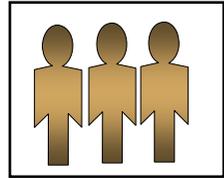
- Standardized Processes;
- Standardized Methodologies;
- Improved Risk Analysis;
- Consistent Tool Usage;
- Improved Reporting;
- Improved Resource Management;
- Improved Communication & Collaboration.

Project Management Office Components

The PMO is the infrastructure required to integrate, drive, and coordinate the individual components of a specific project. It is also the center for assembling, tracking, and distributing key project information.



Establishing a PMO: Proposed Next Steps



**CBI PMO
Deployment
Team**



Consultant

**USAID
Funding**



- Identify "pilot project" candidate.
- Conduct "Project Assessment" on identified projects.
- Assess current project management practices in use within identified projects
- Determine required processes and capabilities
- Confirm project office vision

- Define governance structure for project office
- Organize and staff project office
- Establish business benefits and measures
- Establish communications infrastructure
- Publish standards and processes to be used

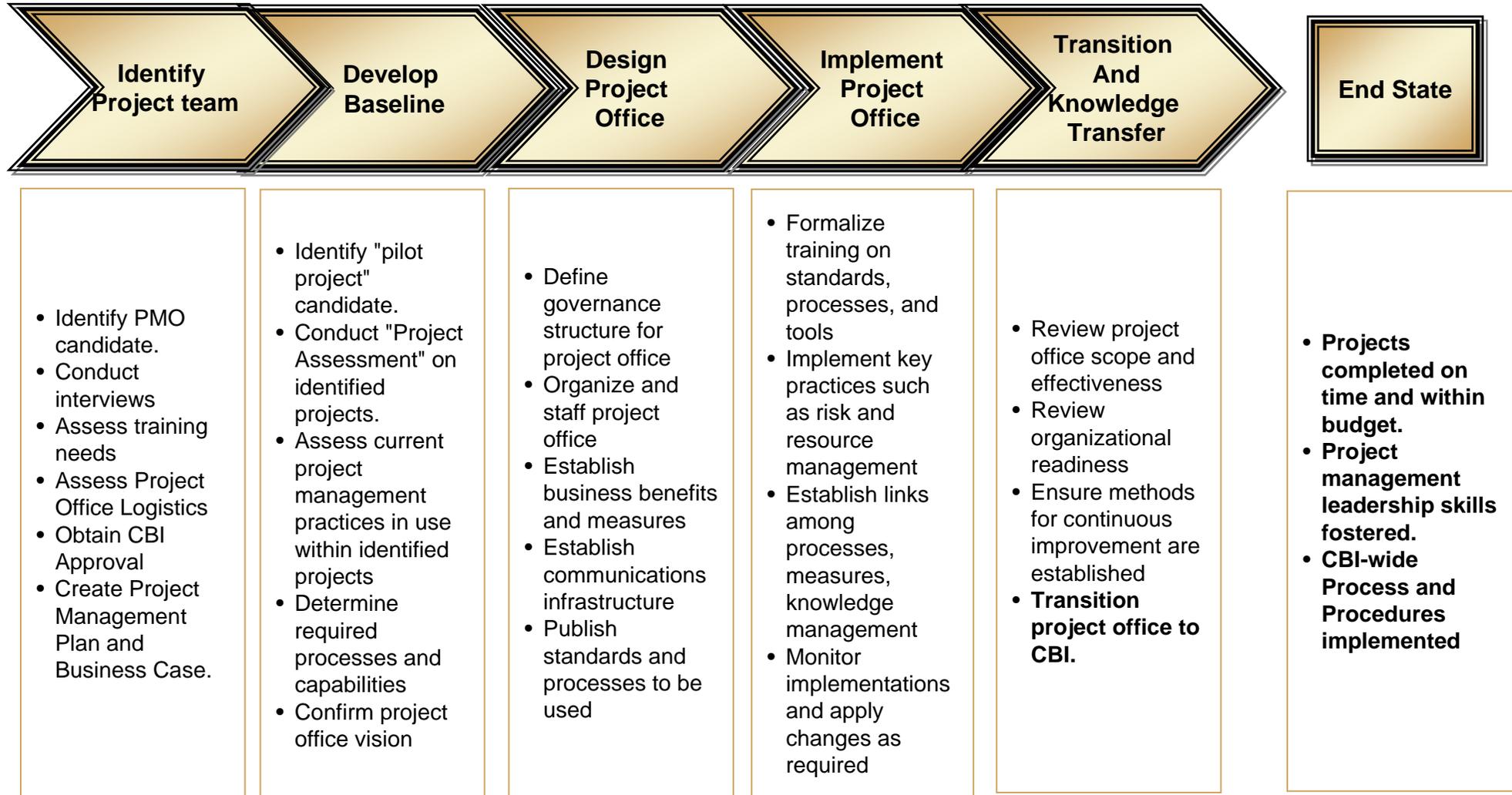
Capacity Building Efforts

- Formalize training on standards, processes, and tools
- Implement key practices such as risk and resource management
- Establish links among processes, measures, knowledge management
- Monitor implementations and apply changes as required

- Review project office scope and effectiveness
- Review organizational readiness
- Ensure methods for continuous improvement are established
- **Transition project office to CBI.**

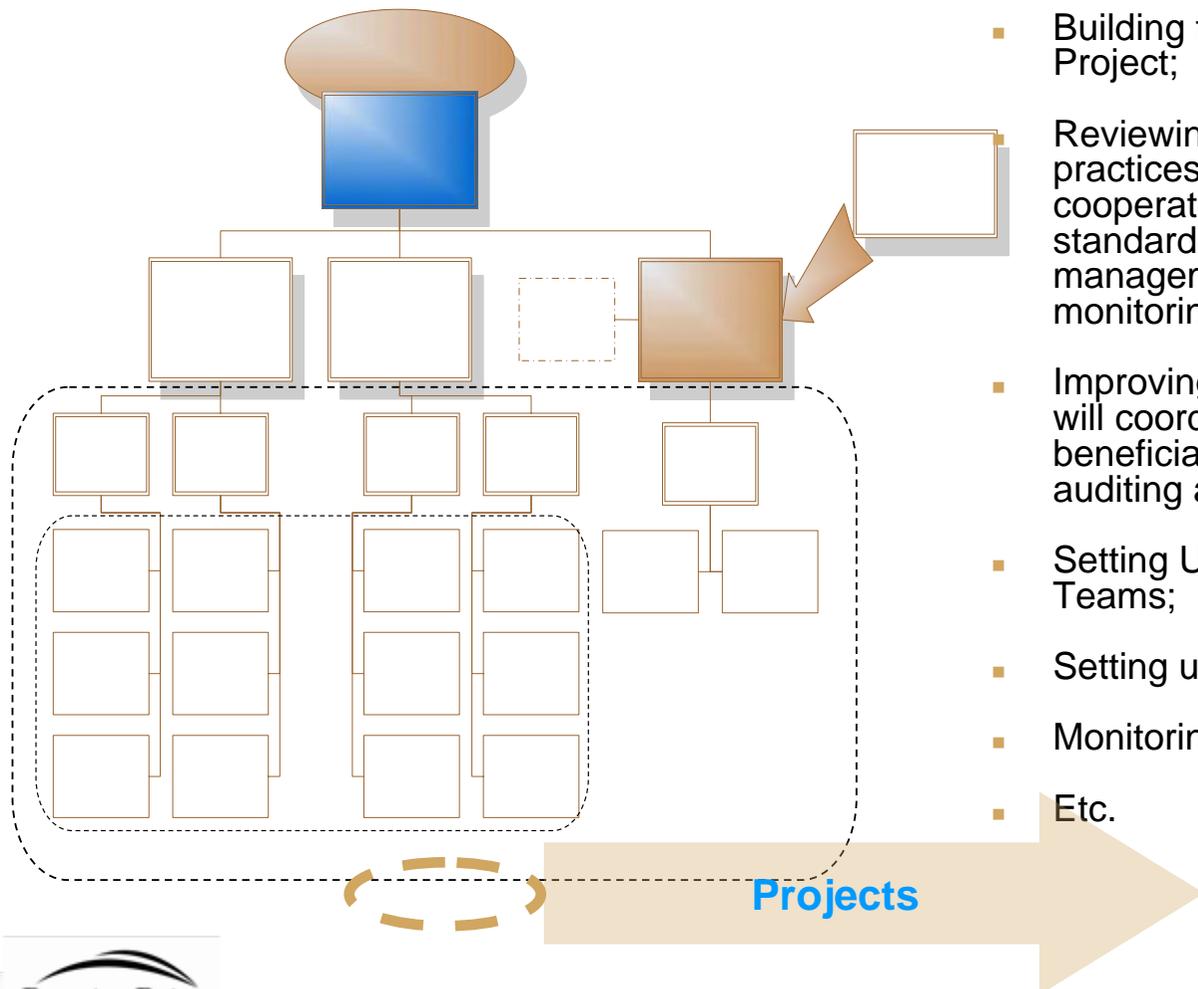
- **Projects completed on time and within budget.**
- **Project management leadership skills fostered.**
- **CBI-wide Process and Procedures implemented**

Establishing a PMO: Proposed Next Steps



PMO: Governance and Organization

No matter what type of PMO is established, the PMO team will have a greater chance of success if the PMO is aligned as high as possible within the organization



“Project” : An endeavor, having a definite beginning and a definite ending, undertaken to create a unique product or service. Project Management Institute, PMBOK Guide

- Building the PMO: Project Management Deployment Project;
- Reviewing, upgrading, and promoting operating practices (IT, HR, communication plan – in close cooperation with the MPCB team); management standardization, measurement, work integration (issue management, change management, project monitoring, risk management);
- Improving/Fostering Donors coordination: the PMO will coordinate donors’ Project activities and all beneficiary departments; manage reporting and auditing activities;
- Setting Up and Coordinating Monetary Policy Briefing Teams;
- Setting up a Travel Department;
- Monitoring with SBA (Stand-By-Arrangement);
- Etc.

Donor Community
(USAID World Bank etc)

Capacity-building will initially focus on:

- The development of specific skills related to report-writing, and Project proposal preparation.
- The development of organizational systems which will promote more effective operating practices (including teamwork, strategic planning, management systems, staff development, communications, and networking etc.) with the aim of enabling the CBI to establish and implement their own policies and practices, and hence to manage projects (and donor funds) more effectively to achieve project objectives.
- The development of monitoring and evaluation skills to encourage reflective learning.